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SUMMARY

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Lebanon

ADAPTING THE MEANS AND METHODS OF FINANCING TO THE REQUIREMENTS OF DEVELOPMENT

(EGYPT, SYRIA, LEBANON, IRAN)

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ADAPTING THE MEANS AND METHODS OF FINANCING TO THE REQUIREMENTS OF DEVELOPMENT
(Egypt, Syria, Lebanon, Iran)

by

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The establishment of European banks in the Lebanon, Syria, Egypt and Iran provided these countries with facilities for short-term finance which enabled their foreign trade to develop. As a result of their operations governed by the inflow and outflow of funds in accordance with the needs of trade, the tertiary sector acquired a disproportionate importance in the national product. The nature of the credit allowed by banking organisations has for a long time determined the economic structure of these countries.

2. As a general rule, in the capitalistic regimes of the Middle East the setting up of credit organisations or of institutions which assist expansion precedes the growth of specific sectors of the economy. Investments made simply in infrastructures do not cause corresponding private investment and do not give rise to new developments unless specialised credit organisations are established and can function.

3. Along with bank credit there will however develop an important volume of personal credit a part of which will be able to develop to the stage of credit by book entries between commercial undertakings. This method originated in family traditions which still remain vigorous in Lebanon, Syria and Iran. It makes up seemingly for the lack of assets of the modern institutions. The personal character of assistance through these customs inherited from tribes and clans cannot however fulfil the economic functions of credit, and it does not envisage the granting of credit to producers. The accumulation and mobilisation of savings are outside the scheme. The reconstitution of funds plays no part in this type of aid.

4. The absence of central banks which can exercise roles of control and guidance has greatly hindered the development of credit since the moment when the local banks tended, by their number and activity, to supplant foreign banks. The issuing houses in the form of companies ancillary to the powerful commercial banks established chiefly with foreign capital do not command the confidence of the local banks who have deposits which are fiercely competed for. The re-discounting of commercial bills which would have enabled credit to be channelled has only achieved a low level of no significance for economic activity.

5. The drain on available private funds sought for caused by the high rates of interest in current accounts and deposit accounts has put a damper on enterprise and on long-

term investment. The belief that profitable outlets for medium and long-term funds are lacking, except in the revenue-producing property sector, has had the result that the commercial banks have made serious efforts to attract fixed deposits which would have contributed to investment in agriculture and industry once their methods of financing had been adapted to it. The productive sectors have had their development retarded by the absence of adequate credit and the commercial deposit banks have shrunk from the effort of creating it.

6. The taking-over of the Iranian budget deficits by the American Government opens up to the Middle East the possibility of financing development from outside resources, in the form of loans or economic aid. These resources of a new type were granted to Governments which could submit development projects. A new consciousness of co-operation between backward countries and industrialised countries has thus arisen. Assistance is soon called for and is anticipated in investment projects.

The resources made available, particularly to Iran and to Egypt, have not succeeded in solving the problems of development finance. It was left to the States which enjoyed foreign aid to stimulate the necessary investment in the private sector in conjunction with infrastructure works and their industrialisation projects.

In this stage of evolution of these countries many gaps in State action can be observed. Not only could their projects be insufficiently studied from a technical angle and take a great deal longer to fulfil than was foreseen, but their integration into the national economy by State action did not meet the needs, the means and the opinion of private investors.

7. The specialisation of Bank credits ought to have played an important role in the agricultural and industrial sectors. Banks materially maintained from the budgetary resources and the reserves of the State or by loans from the Issuing Institute backed by State guarantee appear to have functioned as agricultural or industrial banks. The mediocre sums placed at the disposal of these banks before the era of foreign economic aid and loans by international financial institutions have been chiefly used for loans for working capital (insufficient for requirements) and for loans to industrial undertakings which are important from the national point of view. Agricultural projects and small and medium-sized industrial undertakings which required medium-term credit have had only slight access to this system of credit. The problem of purely banking funds derived from fixed deposits or from borrowings related to the banks' own funds has not been solved, and it is always bedevilled by too great a disproportion between advances to be sanctioned and the requirements to be satisfied, by the insecurity of certain types of loans granted under pressure from political groups and by the lack of offices for research and for technical assistance in the majority of banks.

The recent establishment of commercial banks, of para-State organisations for providing finance, and of development banks in Iran, Egypt and Syria, represents an interesting endeavour to mobilise resources and to adapt methods for financing called forth by the attempts at planning and recognition of the necessity for investment for development.

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